This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000560

SIPDIS

STATE FOR EAP/BCLTV, EB
COMMERCE FOR ITA JEAN KELLY
TREASURY FOR OASIA JEFF NEIL
USPACOM FOR FPA

E.O. 12958: DECL: 05/07/2013
TAGS: EFIN ECON PGOV BM
SUBJECT: BURMA'S BANKS: THE BEATDOWN GOES ON

REF: RANGOON 430 AND PREVIOUS

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.5 (B,D)

¶1. (C) Summary: The future is not clear, and certainly not bright, at end of the second full month of the Burmese banking crisis. The banks' restrictions on withdrawals are still in place as are orders that banks recover outstanding loans. Bankers continue to speculate on mergers and bankruptcies, though none have yet gone under. Companies' ability to muddle through, and the resurgence of the underground financial system, have managed to contain the economic spillover in the short term. However, the absence of effective private banks will constrain long-term growth and may hinder future economic reforms. End summary.

The End is Nigh?

¶2. (C) Bankers and businessmen are more certain than ever that the private banking system is finished. During the month of April the government remained silent on the banks' problems and made no move to lessen controls on the banks or use Central Bank funds to improve liquidity. Withdrawal limits also remained at 100,000 kyat (about $100) per week per depositor, and new deposits were negligible, because of low public confidence in the banking system, and the government's refusal to sanction special treatment for new depositors. The GOB's Private Bank Management Committee continues to meet nightly, requiring all private banks to submit records of that day's withdrawals, deposits, and loan repayments.

¶3. (C) For the second month in a row, the private banks, under order from the Bank Management Committee to bring in as much as 70 percent of their loans by the end of April, are leaning on their borrowers (with the help of Military Intelligence) to repay as much, and as quickly, as possible. The Committee seems to be focused primarily on the larger banks, like Yoma Bank, AWB, and KBZ Bank, which had the vast majority of outstanding (and likely rotten) loans, and which were recipients of Central Bank advances at the start of the crisis. However, even the smaller banks are under pressure from the authorities, and from their own deteriorating bottom lines, to call in what they can.

¶4. (C) Despite this pressure, large and small bankers tell us that they had little success meeting their April objectives. One banker blamed a continuing slowdown of the economy, plus the general need for cash around the Burmese New Year festivities (April 13-17), for the sluggish recouping of loans. On top of zero deposit growth, the slowing of loan repayments has led to worsening cash positions in April for the banks with whom we spoke.

Industry Continues to Limp Along

¶5. (C) On the bright side, it appears that the majority of employers met payroll again in April. So far it appears that banks are willing (with Committee approval) to open their safes for large corporate customers. The Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) reports that none of its members is complaining about an inability to pay workers. According to one banker, the Bank Management Committee has been very willing to approve requests for withdrawals over 100,000 kyat for emergencies such as payroll and tax payments. However, the Committee reportedly often authorizes only 50-75 percent of the amount requested.

¶6. (C) Though it is too early to make any confident assertions, there are some signs that the liquidity crisis may be easing, at least so far as the real economy is concerned. Apparently, enough cash has returned to circulation to restart some commerce, raise some asset prices, and fund a measure of capital flight. In any event, beginning in mid-April, the price of the dollar and some used cars started to creep back up (the dollar gaining 8 percent on the kyat after declining nearly 20 percent in February and March). We give credit to the already large informal banking network in Burma, which was able to take over a portion of private banks' lending, payment, and remittance activities.

Banking, in short, hasn't so much died in Burma as just gone partially underground.

What's the Plan?

¶7. (C) Private bankers argue that the GOB's policies seem designed to bankrupt the private banks or force them into mergers with their state or military-owned counterparts. Some even hint that the GOB might move at the end of May, when 100 percent of outstanding loans are ostensibly due for repayment to the largest banks. However, an official in one of the country's larger banks said that at the current rate his bank could survive another 2-3 months before giving up the ghost. An official at a smaller private bank said that his institution could last at least through September.
¶8. (C) The government itself has been silent on its plans. Nevertheless, it may view its actions as simply a prudent way to squeeze speculative excesses out of the economy and hold bankers accountable for their previous misdeeds. The relatively quick deflation of asset bubbles, and stable consumer prices since the regime began its tough-love strategy are taken as proof by top GOB officials that this type of approach has been effective in dealing with the banking problem while protecting the country's economic situation.

Comment: "Bankers" or "Banking" Crisis?

¶9. (C) For all the dire predictions of disaster that accompanied the initial run on the banks and the decision to limit withdrawals, the Burmese economy seems to be coping. Trade continues, most retail prices have stabilized, and payrolls are being met -- though some large construction projects have stopped. In part this is due to the cash-based character of the Burmese economy. Few people ever used banks; the 550 billion kyat in recorded deposits at the private banks in fact was only one-third to one-quarter of estimated total money in circulation. The underground honti exchange system has also been able to step up to provide a ready substitute for at least a portion of the private banks' payment services. More expensive and less reliable than private banks, the honti system is nevertheless available everywhere in Burma. Finally, the net value added by private banks to Burma's economy had declined in recent years as the banks, faced with ever expanding inflation and debilitating government banking regulations, moved more and more into speculative investments of doubtful economic value. That has stopped, hurting speculators -- in many cases bankers themselves.

¶10. (C) In short, the longer this episode continues, the more it appears to be a crisis for the individual banks rather than Burma's economy as a whole. In the end, some private banks and some large families may be bankrupted, but to judge by events to date, the economy will continue to tick along, albeit at a slower pace. Nevertheless, there will be a price to pay. Unless government banks can pick up the slack, the inevitable chill on economic expansion and commerce caused by the lack of a formal banking sector might limit the potential for future economic reforms, such as the recent liberalization of the rice market.
Martinez